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OF THE
STATE OF CALIFORNIA

In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Integrate Their Gas Transmission Rate, Establish Firm Access Rights, and Provide Off-System Gas Transportation Services.	A.04-12-004

COMMENTS OF WOODSIDE NATURAL GAS INC. ON THE PROPOSED DECISION AND ALTERNATE PROPOSED DECISION ON THE FIRM ACCESS RIGHTS PROPOSAL AND RELATED MATTERS

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Pursuant to the procedural schedule adopted by ALJ Wong, Woodside Natural Gas Inc. ("Woodside") submits its Comments on the ALJ's Proposed Decision ("PD") and the Alternate Proposed Decision ("APD") of assigned Commissioner Brown concerning the proposal of Southern California Gas Company ("SoCal") for approval and implementation of a system of firm access rights ("FARs") and associated issues. Woodside appreciates the work of both ALJ Wong and Commissioner Brown to sort through the many and complex issues presented in this phase of the proceeding. Each of the PD and APD provides a workable framework for implementation of FARs and each addresses the important issues associated with the addition of new or expanded receipt points by either LNG shippers or shippers on the existing interstate pipelines. Woodside's comments will focus primarily on the PD's and APD's treatment of receipt point expansion issues.

Woodside is interested in this phase of the proceeding because it is in the process of obtaining the necessary federal and state permits to construct and operate an LNG receiving facility offshore Los Angeles. The Woodside project will use a state-of-the-art regasification and off-loading process that minimizes environmental and safety concerns. Woodside proposes to bring a substantial new long-term supply of natural gas to California, thereby adding both to the State's supply security and to the level of gas-on-gas price competition, and its project will provide significant benefits to California natural gas consumers and to the State's economy.

The rules adopted by the Commission in this phase of the proceeding for identification of new receipt point facilities and costs, for estimation and payment of the costs of such facilities and for construction and funding options available to project developers will have an impact on the economics and timing of projects such as Woodside's. Further, the interaction of the new receipt point costing and funding process with the adopted system of FARs, and the scheduling rights associated with such, are very important to potential LNG shippers. Woodside knows that the Commission appreciates the supply security and price competition benefits associated with the introduction of new LNG supplies, and that through this and other proceedings, its intent is to develop clear, fair and reasonable rules concerning access by new LNG shippers to the SoCal/SDG&E transmission and distribution system. We believe the PD and the APD, with some relatively modest changes, can provide the vehicle to accomplish the Commission's goals.

I. Identification and Costing of the Facilities Needed For New Receipt Point Access – Displacement vs. Expansion Capacity

Fair, open and non-discriminatory access to the SoCal system, and the ability to move natural gas through the SoCal system to customers on the PG&E system, and to other customers east of California, is vitally important to prospective LNG shippers such as Woodside. While the Commission has made it quite clear (D.04-09-022) that SoCal is obligated to provide new shippers, such as Woodside, with fair, open and non-discriminatory access to its gas transmission and distribution system, the experience of Woodside and other potential LNG shippers has raised questions concerning the extent to which SoCal is willing to facilitate that goal in practice. Thus, Woodside is pleased that both the PD and the APD address this issue directly.

At page 72 of the PD, ALJ Wong adopts provisions taken from Section 3 of the Joint Proposal concerning the determination of the facilities needed to provide new receipt point access to the SoCal system and the estimation of the costs of such facilities. Section 3 of the Joint Proposal sets forth four fundamental requirements for fulfillment of the Commission's "fair, open and non-discriminatory" access policy. First, upon the request of an entity desiring to establish new receipt point takeaway capacity, SoCal or SDG&E must make a timely determination of the facilities and associated costs required on both a Displacement and Expansion capacity basis. Second, SoCal or SDG&E must make this determination on a non-discriminatory and transparent basis, without favoring any region of the service territory or any requesting entity. Third, in the course of making its determination on the facilities required, and their cost, SoCal or SDG&E shall provide the requesting entity with access to all pertinent cost and engineering information, subject to a confidentiality agreement if requested by either party. Fourth, having reviewed all of this information, the requesting/funding party shall be permitted to choose whether to fund the new receipt point facilities on a Displacement or an Expansion basis. The parties supporting the Joint Proposal believe that each of these provisions is an essential element of the successful implementation of the Commission's "fair and open" access policy.

Both the PD and the APD adopt the first three of these provisions (literally, the first three sentences in Section 3 of the Joint Proposal), and Woodside is very appreciative of this given that it is currently engaged with SoCal in the process of identifying the facilities needed to permit delivery of its new LNG supplies directly into the heart of SoCal's load center. It has been our experience that it requires concerted, ongoing effort on the part of a new receipt point developer to extract the necessary information from SoCal in a form that is clear and understandable, and that permits a full understanding of the underlying load and system assumptions. The explicit adoption of these provisions will facilitate a more open and accurate discussion.

Unfortunately, however, the PD and APD reject the fourth provision in Section 3 of the Joint Proposal, which provision allows the funding party to choose to fund the new/expanded receipt point capacity on a displacement or expansion capacity basis. The rejection of this important provision is not the right decision and should be reversed. Given the Commission's stated requirement that SoCal and SDG&E provide fair, open and non-discriminatory access for new gas supplies, it should take away from the utilities a tool that could be used to discriminate against a particular new supplier. The cost estimates associated with displacement vs. expansion capacity at new receipt points have tended to be very different. The new LNG shipper that is required to fund receipt point facilities on an expansion basis will be put at a significant disadvantage to the shipper that is permitted to fund such facilities on a displacement basis. If SoCal or SDG&E is able to dictate that the facilities for a new or expanded receipt point are to be constructed on an expansion basis while the facilities for another new or expanded receipt point are to be constructed on a displacement basis, it can send a very powerful signal in favor of one new shipper as opposed to the other shipper. Indeed, there is a risk that this is what SoCal and SDG&E may be doing with regard to new LNG receipt point capacity.[1]

In rejecting the fourth sentence of Section 3 of the Joint Proposal, the PD cites Edison's argument that expansion capacity should be preferred because it "results in more gas supplies entering the marketplace."[2] The PD states its agreement with Edison's assertion that receipt point additions/expansions on a displacement basis will have the effect of displacing other supplies and thereby increasing gas costs.[3] The Edison argument is simply wrong and the Commission must not endorse it. Whether a particular gas supply enters the SoCal system is, on

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[1] Recently, Sempra LNG and Coral jointly funded new receipt point expansion at Otay Mesa on a displacement capacity for the relatively nominal cost of $10 million. Other LNG shippers, who propose to deliver gas to SoCal at Salt Works Station near Long Beach, at a point due east of LAX, or in the northern San Fernando Valley have been told that they must fund new receipt point facilities on an expansion basis, at substantially higher cost.
[2] PD, at p. 71.
[3] PD, at p. 59.

average and over time, a function of its pricing. The total amount of gas that will flow is a function of total customer demand, whereas the specific supplies that will flow are a function of their relative prices. It is not the addition of new displacement capacity that will cause any particular gas supply not to flow, but rather the pricing of the supplies able to enter through the new displacement capacity relative to all other supplies at all other receipt points. Expanding the overall takeaway capacity of the system ***will not cause any additional gas to flow***. The record shows that SoCal does not need to expand its overall takeaway capacity – at 3.8 BCF/d, it very substantially exceeds the average daily throughput on the system of just 2.5 BCF/d. SoCal, in supporting its FAR proposal, has argued strongly that it makes little sense to invest the hundreds of millions of dollars required to expand its takeaway capacity given the current excess – it certainly does not advocate spending ratepayer dollars on such expansions. Perhaps Edison merely hopes to seize an opportunity to force a new shipper or shippers to pay for system expansion.

The PD's endorsement of Edison's preference for expansion capacity is a mistake and it should be removed. Rather, the new receipt point funding party, who will, after all, be required to pay all of the costs of the new facilities on an incremental basis, should be permitted to make a choice between displacement and expansion capacity. And make no mistake, this is a real choice for the funding party – its ability to move its gas reliably on to the SoCal system will be affected by its choice. Under the scheme set forth in the Joint Proposal, and under the scheme endorsed in the PD, a party that funds displacement capacity will be subject to possible pro-rationing if the total takeaway capacity for the zone in which the receipt points lies is exceeded by nominations pursuant to FARs at those receipt points. In contrast, if it funds expansion capacity, it is not to be subject to pro-rationing. There is a healthy tension here and the Commission should allow it to operate. This is not to say that the Commission does not have, in the end, the authority to determine how the SoCal system should be expanded. But consider whether it is appropriate for the Commission to make that call when the new capacity is being funded entirely by the new shipper on an incremental basis, as opposed to the situation where SoCal identifies the need for expansion of its system and proposes rolled-in funding by all ratepayers. The temptation to require the expansion of the system when it is being paid for by someone else is very evident and it should be resisted. Consider further whether it would be efficient to involve the Energy Division and the Commission in these decisions. Consider also the Commission's stated goal of encouraging the development of new supplies sources for California, and LNG supplies in particular – requiring such shippers to fund expensive expansion capacity is unlikely to promote new supply projects. At a bare minimum, the Commission should make clear that the displacement/expansion decision will not rest with SoCal. Woodside strongly prefers the language contained in the fourth sentence of Section 3 of the Joint Proposal and urges the Commission to adopt that language.

While the PD adopts two of three funding options for new takeaway capacity set forth in Section 4 of the Joint Proposal, it rejects the option for developers to build the required facilities, pursuant to and consistent with SoCal's specifications, and to hand them over to SoCal upon completion.[4] The PD offers little in the way of analysis for this determination, stating only that "SoCalGas point[s] out that it is unlikely that a funding party will 'construct the necessary facilities and transfer ownership and operating responsibilities to SoCalGas or SDG&E.'" No basis or evidence is offered for this conclusion, and it certainly is counterintuitive. First, when SoCal comes up with very large estimates of the cost of adding the facilities necessary to establish and new or expanded receipt point, estimates that appear to grossly overstate any reasonable estimate of the costs, developers will have a great deal of incentive to see if they can do it less expensively. Second, this developer-build funding alternative is currently in widespread use for extension of SoCal facilities to new residential and commercial developments. SoCal determines the facilities required and their specifications, and the developer constructs the facilities. When completed, they are transferred to SoCal. There is

[4] PD, at p. 72.

absolutely no reason to eliminate this funding option for new receipt points. Once again, the Commission should resist the temptation to authorize the utilities to spend other people's money. If a developer can install the facilities less expensively and/or quicker, and both are likely to be the case, neither SoCal nor the Commission should get in the way. This element of the PD and APD should be changed.

II. Application of FAR to New LNG Receipt Point Capacity

The PD and the APD adopt the SoCal FAR proposal as the model for a system of firm access rights. While they also adopt elements of the Joint Proposal, both the PD and the APD would require new LNG shippers, who will pay the full incremental costs of the facilities needed to establish a new receipt point, to also pay the FAR rate. Woodside understands the desire of ALJ Wong and Commissioner Brown to integrate the provisions of the FAR proposal and the Joint proposal, but we are concerned that the PD and APD may exhibit some confusion with regard to the application of FARs to new LNG receipt point capacity. We believe that the LNG shipper's payment, on an incremental cost basis, of the full costs of establishing a new receipt point should be adequate for purposes of establishing a right to move its gas onto the SoCal system, and that there is no need, nor any justification, for application of an additional charge, the FAR 5-cent fee.

The Commission's policy has been clear since the issuance of D.04-09-022 that the costs of new receipt point facilities are to be paid for on an incremental cost basis by the moving shipper, and that a case would have to be made for rolled-in treatment of such costs on a case specific basis. In contrast, the costs of the existing facilities required for the SoCal receipt points that interconnect with the interstate pipelines, including the takeaway backbone pipeline facilities, were paid for by ratepayers generally. These are two very different situations: one entity is required to pay the entire cost of the receipt point facilities, while the other is able to move its gas through an existing receipt point at no cost presently – the costs of the facilities having been paid by the ratepayers generally. Application of a new FAR rate to both shippers is not equal treatment of those shippers.

Further, it is the existing receipt points that are alleged to suffer constraints that from time to time require pro-rationing of supplies, and it is the possibility of this pro-rationing that drives the SoCal proposal for a system of FARs. New LNG receipt points, particularly those that may be built on the Pacific Ocean side of the SoCal system, are unlikely to suffer such capacity limitations specifically because SoCal is designing the facilities to avoid any such constraints. Further, it is likely that just one supplier's gas will move through each of these new receipt points because they are so directly associated with a specific new LNG project. Thus, while it may make sense to require FARs for the movement of gas across existing receipt points and across the SoCal backbone transmission system to the load center, the reasons why FAR may be appropriate for existing receipt points do not necessarily apply to new LNG receipt points.

Further, to the extent the application of FAR rates is justified on the ground that they provide recovery of a portion of the embedded costs of the backbone transmission system and permit a shipper to move its gas to the City Gate, that justification only makes sense with respect to the long, high pressure pipelines that connect existing interstate receipt points to the SoCal load center. ***New LNG shippers, in contrast, propose to deliver their gas directly into the SoCal load center – they will not require long stretches of new backbone pipeline capacity***. By their payment of the incremental costs of the new receipt point facilities they will cover all of the backbone costs associated with moving their gas to the City Gate. Thus, from Woodside's perspective, it makes little sense and, indeed, it appears discriminatory to require equal application of the FAR 5-cent rate to all shippers, whether they introduce gas at existing receipt points or at new, incrementally funded, receipt points.

We respectfully suggest that the better way to reconcile implementation of a system of FARs with new LNG receipt points is to require the LNG shipper to pay the higher of the amortized costs of the facilities required to establish the receipt point, or the FAR rate. If the shipper chooses to fund the full cost of such facilities at the outset, there should be no ongoing charge. We believe that the PD and APD, in their effort to reconcile FARs for general application across all receipt points have lost sight of the very substantial differences in the circumstances of the shippers at different receipt point. In this case, equal application of the FAR does not equate to equal treatment.[5]

III. Off-System Delivery Service

The PD approves an interruptible Off-System delivery service to PG&E, but it rejects SoCal's proposal for a 16-cent fee, endorsing instead a 5-cent FAR for such service.[6] Woodside is pleased that this initial Off-System service will be approved, and that the Commission has wisely rejected the very high 16-cent rate sought by SoCal. It makes sense to Woodside that application of the 5-cent FAR rate to this service will recognize the incidental use of the SoCal transmission system that is involved in such a backhaul service.

Woodside is concerned, however, both about the timing of SoCal's open season for interest in a firm service to PG&E and about the Commission's deferral of consideration of an Off-System service to points east of California until May 2008. The PD reasons that it will know more about the state and extent of LNG development by that date, and will be in a better position to assess the need for an Off-System delivery service to other pipelines. Woodside respectfully suggest that there is a bit of a "chicken and egg" issue here: the availability of good, reasonably priced Off-System delivery service to several different interstate pipelines, and through them to the larger western states gas market,[7] will be a critical consideration in LNG developers' assessment of whether to build facilities in California. We would strongly prefer the

[5] Woodside is pleased, however, with the determination of the PD and the APD to eliminate the credit back element of the SoCal FAR proposal and to treat FAR revenues as simply one form of recovery of the overall revenue requirement.
[6] Pd, at p. 116.
[7] As Coral witness Travis noted, the SoCal market is only 2.5 BCFD while the western interconnect market is four times that amount. (Travis, TR. 1849.)

Commission to move this issue forward now rather than waiting for 18 months to assess the amount of LNG development.

IV. Elimination of the Peaking Rate Is a Sound Idea

The PD and the APD differ in one principle respect: the PD would retain the Peaking Rate while the APD would eliminate it. Woodside agrees with Commissioner Brown that whatever the rationale for adoption of the Peaking Rate, it is not a particularly useful tool. As the APD concludes, instead of narrowing the regulatory gap between the interstate fixed/variable pricing and SoCal's full volumetric pricing, the Peaking Rate has broadened the gap. It has not resulted in more competition, but rather less. Woodside agrees with the APD's assessment that SoCal is free to propose new pricing structures that will better equip it to compete for the business of new electric generation customers, including the negotiation of specific contracts. We agree with the APD's conclusion that the Peaking Rate should be set aside.

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Respectfully submitted,

/S/

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CERTIFICATE OF SERVICE

I, the undersigned, declare that I am employed in the County of Contra Costa, California, that I am over the age of eighteen years and not a party to the within action. My business address is 1500 Newell Avenue, Fifth floor; Walnut Creek, CA 94596.

On November 20, 2006, I electronically served a true copy of the document described as **COMMENTS OF WOODSIDE NATURAL GAS INC. ON THE PROPOSED DECISION AND ALTERNATE PROPOSED DECISION ON THE FIRM ACCESS RIGHTS PROPOSAL AND RELATED MATTERS** attached hereto, on each of the persons named below.

SEE ATTACHED SERVICE LIST

Executed on November 20, 2006, at Walnut Creek, California.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

/S/

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